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C O N F I D E N T I A L SECTION 01 OF 03 ABU DHABI 002957

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STATE FOR NEA/ARPI AND EB/ESC/IEC/EPC  
ENERGY FOR MOLLY WILLIAMSON AND JOHN BRODMAN  
NSC FOR HUTTO

E.O. 12958: DECL: 07/02/2015

TAGS: EPET ENRG TC

SUBJECT: DOE WILLIAMSON ENERGY DISCUSSIONS IN UAE

REF: ABU DHABI 02690

Classified By: Ambassador Michele J. Sison for reasons 1.4 (B) and (D).

¶1. (C) Summary. DOE officials Molly Williamson and John Brodman met UAEG counterparts to discuss the UAE's oil sector and oil market issues. The delegation, accompanied by Ambassador and econoff, briefed UAEG interlocutors on Secretary Bodman's recent travel to Moscow, Baku and Kiev.

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Williamson also outlined the proposed U.S. energy bill and raised the proposed "NOPEC" amendment. The UAE officials noted that the UAE is currently producing at capacity, but that expansion efforts are in process. All of the officials repeated concerns that manpower and resource constraints are creating bottlenecks in the refining process. The UAE Minister of Energy explained that the UAE is opening new desalination plants along the Gulf of Oman (instead of the Arabian Gulf), to avoid further raising salinity levels in the Gulf. U.S. oil and gas executives working in the UAE commended the UAE's favorable business environment. End summary.

¶2. (U) On June 22, DOE Senior Foreign Policy Advisor Molly Williamson and DOE DAS for International Energy Policy John Brodman, met with Mohammed bin Dha'en Al Hamili, the UAE Minister of Energy, Mohammed Habroush Al Suwaidi, a senior advisor to UAE President Khalifa, and Abdullah Nasser Al Suwaidi, Deputy CEO of the Abu Dhabi National Oil Company (ADNOC). All three officials are members of the Supreme Petroleum Council (SPC), which determines the emirate of Abu Dhabi's oil policy, oversees ADNOC, and determines Abu

Dhabi's position on OPEC issues (note: The UAE's emirates control their own mineral resources. Abu Dhabi possesses 94% of the proven oil reserves in the UAE). All three officials welcomed a possible November visit to the UAE by Secretary of Energy Bodman.

Producing at Max Capacity, Expansion in the Works

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¶ 13. (C) UAE officials conveyed the same message to Williamson at all of the meetings -- the UAE is currently producing at its maximum sustainable capacity (2.5-2.6 mb/d), but planned expansion will raise production to around 3.0 mb/d by the end of the decade. ADNOC's Al Suwaidi stated that 200,000 b/d will come from onshore and 200,000 b/d will come from offshore fields. This planned production is a measured increase in line with UAE's careful reservoir management policy. During the meeting with Al Suwaidi, ADNOC's Head of the Marketing Research and Analysis Department stated that the most significant offshore expansion project will increase the exploitation of the mammoth Upper Zakkum offshore oil field. (Note: The Upper Zakum oil field, a complicated field, has high reserves but a low recovery rate. The SPC is in final negotiations with Exxon/Mobil for a 28% stake in the project. Exxon and the SPC anticipates that it will be able to boost production from 540,000 b/d to 750,000 b/d.)

¶ 14. (C) In a separate meeting with Exxon-Al-Khaleej President Frank Kemnetz, Kemnetz said that the UAE "is doing all the right things to try to increase supply responsibly," but he noted that the UAE's ability to increase production significantly in the short term is as much a policy as a technical and environmental question. "Given known resources, the question is: to what extent will the UAE be willing to increase production -- and thus increase depletion rates -- in response to demand." (Note: ADNOC officials have told us in the past they can temporarily raise production by flaring, but that they do not do so out of environmental concerns and because they do not want to risk damage to their reservoirs in ways that would impact long term output. During his meeting with Williamson, ADNOC's Al Suwaidi emphasized the UAE's policy of gradually increasing production.)

High Prices From High Demand, Bottlenecks in Downstream

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¶ 15. (C) Petroleum Minister Al Hamili noted that the current high oil prices are due to unexpected demands for more energy and market speculation that there is not enough supply to meet demand. UAE officials are clearly concerned about the high price of oil, but they note that they are not able to increase production rapidly. According to Habroush, "I can assure you that as an oil producing country, our interest is to keep prices reasonable and to increase production. We all believe that the high price of oil is not in our long term interest, but sometimes the price of oil is not in our hands." Al Hamili, Habroush, and Al Suweidi each noted that the sudden uptick in demand for energy (from countries like China, India, and Pakistan) had resulted in demand significantly outstripping supply, and that as a result all of the Gulf's oil producing countries are facing challenges in increasing upstream production. They all repeated what we have heard from U.S. oil service companies, that shortages of engineers, raw materials, and equipment are causing downstream refining and shipping bottlenecks and impeding oil producing nations from being able to significantly increase the quantity of crude supplied to the market. Al Hamili explained that the UAE wants to expand capacity to address supply concerns, but that increasing crude production will do little to alleviate the problem until the downstream problems are addressed.

¶ 16. (C) Al Hamili explained that the UAE is also having problems finding contractors to undertake large oil and gas expansion projects. He told Williamson that when the UAE tenders a project, the SPC invites 15-20 international companies to bid, but of late, only one or two respond

(reftel). He acknowledged that the companies, overwhelmed with work, are behaving responsibly and are not willing to over commit themselves. But he underscored that the UAE and other oil-producing countries are struggling to find quality companies to bid on the projects.

¶7. (C) In a discussion about India and Pakistan's desperate need for energy, Al Hamili explained that the UAE would like to provide them with gas, but it is a question of feasibility, asking rhetorically, "how do we get it to them in time to meet their needs?" He also observed that Iran has the ability to meet some of India and Pakistan's gas needs, but "that of course, is another issue." (Note: Outgoing Pakistani Ambassador told Ambassador last week that Ehsan Ullah, from Sharjah's Crescent Petroleum, has been named the new Pakistani Ambassador to the UAE. Ullah is a school friend of Musharraf, and he has lived in Sharjah, UAE for 20 years. He will be well-suited to help Pakistan in its endeavor to import hydrocarbons from the UAE.)

#### Environmental Concerns, Shift in Production Strategy

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¶8. (C) Mohammed Habroush Al Suwaidi explained that as the Arabian Gulf is essentially a land-locked sea, the Gulf countries' many water desalination plants have significantly increased the Gulf's salinity. Out of concern for the long term environmental impact of this, the UAE is locating its new desalination plants in Fujairah, along the Gulf of Oman. (Note: Williamson accompanied then Deputy Secretary of Commerce Bodman to the UAE in 2003, when he discussed with then Minister of Economy and Planning Sheikh Fahim bin Sultan Al Qasimi the long-term environmental impact on the Arabian Gulf from too much desalination. While in 2003 the discussion centered around an awareness of the problem, it is evident that the UAE is now implementing an action plan to deal with the problem.)

#### UAE Aware of NOPEC, Trusts U.S. to Work it Out

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¶9. (C) ADNOC officials asked Williamson about the recent AP news items on the "No Oil Producing and Exporting Cartels" (NOPEC) amendment to the energy bill, and expressed concern that some in the U.S. Congress believed OPEC was fixing prices. During a discussion with the Minister of Energy about NOPEC, Al Hamili hoped this amendment would remain low-profile, and expressed his confidence that the amendment would not become part of the bill, noting "we know you are working on it and we trust and believe that you will get it worked out." (Note: The International Affairs Advisor to Mohammed Bin Zayed, Crown Prince of Abu Dhabi, phoned Ambassador later that day from Morocco to ask about press articles he had seen about the NOPEC amendment.)

#### UAE, A Good Place for U.S. Companies

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¶10. (C) During a roundtable discussion, U.S. oil and oil service representatives in the UAE viewed the UAE as a secure and profitable place for U.S. companies to do business, and they were unified in their assessment that the UAE is behaving responsibly with its wealth by investing in its people. In a similar vein, Exxon's Kemnetz noted during his meeting with Williamson and Brodman, "The UAE's success is a motivator for political and economic reform in the region. Their neighbors see the economic growth and want to emulate them and get a piece of the pie. This is why U.S. companies should be solidly behind a U.S./UAE Free Trade Agreement."

¶11. (U) This cable has been cleared by Molly Williamson.  
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